



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: May 5, 2016

TO: Revenue & Transportation Interim Committee Members
House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2016 General Fund Revenue Update #5

PURPOSE OF REPORT

This report is the fifth of six monthly revenue updates throughout the second half of FY 2016 designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends and the outlook for FY 2016 relative to the official revenue estimate contained in HJ 2. As requested by the Revenue & Transportation Interim Committee, these reports now include a section of selected economic indicators.

SUMMARY

General fund revenue collections are \$67.5 million or 3.8% less than FY 2015 amounts through April, and are currently below the overall growth estimate of 2.9% contained in HJ 2.

Current revenue trends calculated by using year-to-date median collections compared to historical collection patterns (see page 3) indicate total general fund collections of \$2,161 million, about \$102 million less than the HJ 2 estimate. However, the volatility of capital gains income, oil price and production, corporation income, and short term interest rates may result in total revenue collections that are higher or lower than what current collections suggest for FY 2016.

The projected FY 2017 ending fund balance is \$357 million. If FY 2016 revenues end up below HJ 2 by \$102 million and a similar shortfall were to occur in FY 2017, the projected ending fund balance would be \$153 million, still sufficient to not trigger automatic expenditure reductions as directed by [17-7-140, MCA](#).

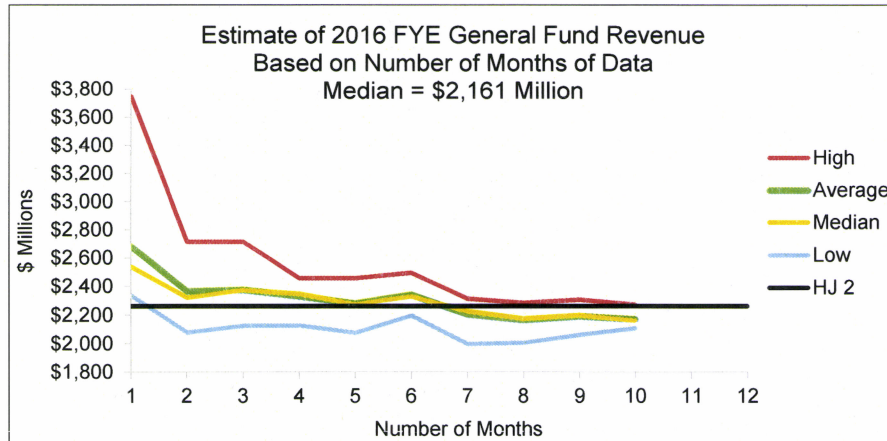
YEAR-TO-DATE GENERAL FUND REVENUE

FY 2016 general fund revenues through the end of April are \$67.5 million or 3.8% less than FY 2015 revenues through the same period; this decrease is below the HJ 2 estimated growth of 2.9%. All major revenue sources and any other sources with significant differences will be discussed in further detail in the next section.

General Fund Revenue Monitoring Report (\$ Millions)							
Revenue Source	Actual FY 2015	HJ 2 Est. FY 2016	HJ 2 Est. % Change	4/30/2015 FY 2015	4/30/2016 FY 2016	YTD Difference	YTD % Change
Largest Seven Sources							
Individual Income Tax	\$1,175.745	\$1,229.616	4.6%	\$1,082.904	\$1,098.694	\$15.789	1.5%
Property Tax	247.881	253.799	2.4%	144.272	149.180	4.907	3.4%
Corporation Tax	172.729	179.898	4.2%	141.825	91.138	(50.687)	-35.7%
Vehicle Taxes & Fees	106.382	106.199	-0.2%	78.631	80.374	1.743	2.2%
Oil & Natural Gas Taxes	73.184	59.250	-19.0%	46.256	21.571	(24.685)	-53.4%
Insurance Tax	66.582	72.279	8.6%	49.765	52.042	2.278	4.6%
Video Gaming Tax	59.799	62.007	3.7%	44.659	45.277	0.618	1.4%
Other Business Taxes							
Drivers License Fee	4.811	4.081	-15.2%	3.758	3.576	(0.182)	-4.8%
Investment Licenses	6.773	7.412	9.4%	6.453	6.927	0.473	7.3%
Lodging Facilities Sales Tax	19.697	21.872	11.0%	12.590	14.229	1.638	13.0%
Public Contractor's Tax	3.257	3.560	9.3%	2.236	1.278	(0.958)	-42.9%
Railroad Car Tax	3.706	3.741	0.9%	2.850	3.111	0.261	9.1%
Rental Car Sales Tax	3.907	3.486	-10.8%	2.851	3.046	0.195	6.9%
Retail Telecom Excise Tax	18.257	18.999	4.1%	10.528	9.308	(1.221)	-11.6%
Other Natural Resource Taxes							
Coal Severance Tax	16.063	14.434	-10.1%	12.223	8.541	(3.683)	-30.1%
Electrical Energy Tax	5.133	4.580	-10.8%	3.505	2.917	(0.588)	-16.8%
Metal Mines Tax	8.320	8.311	-0.1%	3.850	2.009	(1.841)	-47.8%
U.S. Mineral Leasing	26.960	24.069	-10.7%	19.349	13.689	(5.660)	-29.3%
Wholesale Energy Trans Tax	3.795	3.595	-5.3%	2.999	2.482	(0.517)	-17.3%
Other Interest Earnings							
Coal Trust Interest Earnings	21.168	19.805	-6.4%	14.297	13.276	(1.020)	-7.1%
TCA Interest Earnings	2.164	8.527	294.0%	1.517	2.740	1.223	80.6%
Other Consumption Taxes							
Beer Tax	3.034	3.129	3.1%	2.213	2.199	(0.014)	-0.6%
Cigarette Tax	29.604	31.036	4.8%	23.318	24.263	0.945	4.1%
Liquor Excise Tax	19.257	19.521	1.4%	14.315	14.679	0.364	2.5%
Liquor Profits	11.000	11.021	0.2%	-	-	-	-
Lottery Profits	12.363	11.031	-10.8%	6.575	5.471	(1.104)	-16.8%
Tobacco Tax	6.056	6.396	5.6%	4.520	4.600	0.080	1.8%
Wine Tax	2.307	2.363	2.4%	1.745	1.791	0.045	2.6%
Other Sources							
All Other Revenue	40.822	40.060	-1.9%	24.966	23.017	(1.949)	-7.8%
Highway Patrol Fines	4.042	4.349	7.6%	2.840	2.950	0.110	3.9%
Nursing Facilities Fee	4.810	4.756	-1.1%	3.094	3.006	(0.088)	-2.8%
Public Institution Reimbursement	16.819	16.606	-1.3%	10.323	5.779	(4.544)	-44.0%
Tobacco Settlement	3.225	3.145	-2.5%	2.852	3.394	0.542	19.0%
Largest Seven Subtotal							
	1,902.301	1,963.049	3.2%	1,588.312	1,538.275	(50.037)	-3.2%
Remaining Sources Subtotal							
	297.352	299.883	0.9%	195.770	178.277	(17.493)	-8.9%
Grand Total							
	\$2,199.653	\$2,262.932	2.9%	\$1,784.082	\$1,716.552	(\$67.530)	-3.8%

Year-to-Date Relative to Historical Collection Patterns

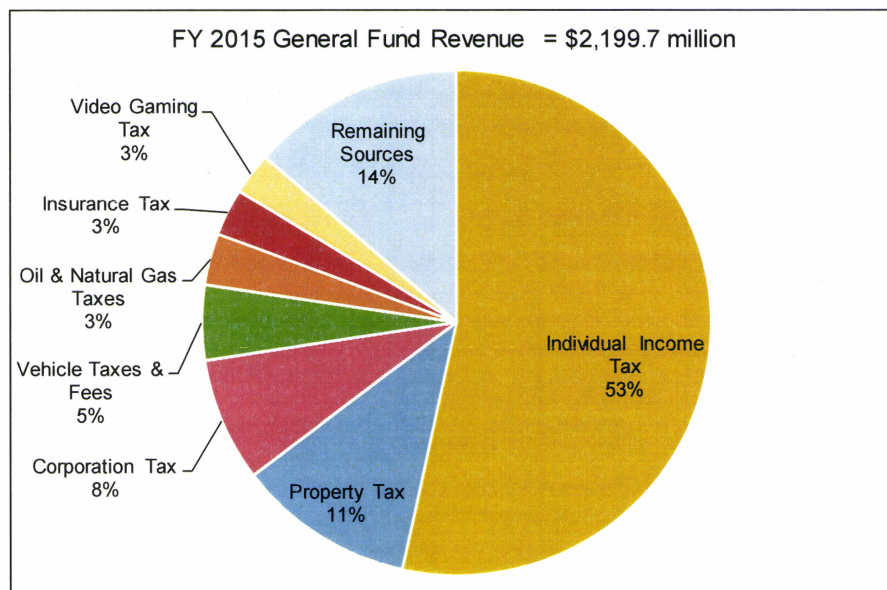
As the fiscal year progresses, the accruing data allows for a closer estimate of final collections based on historical collection patterns. Potential total general fund collections for FY 2016 are calculated using various year-to-date percentages—minimum, maximum, median and average—since FY 2002. The results are shown in the graph below. Based on collections through the end of April, the difference between the high and low is less than \$200 million, with the average and median values below the HJ 2 estimate.



Potential total general fund collections range from a low of \$2,109 million to a high of \$2,272 million, with a median value of \$2,161 million and an average value of \$2,170 million. The FY 2016 forecast for total general fund in HJ 2 is \$2,263 million. Note that an adjustment was made for FY 2002 through FY 2007 to account for Department of Revenue's increased efficiency in processing individual income tax current year payments. Since FY 2008, DOR has processed 97.5% of the combined April and May current year payments in April. Prior years were more evenly split between the two months. The adjustment to the historical collection pattern simply shifts most of the current year payments from May to April to match the current April processing ratio.

MAJOR SOURCES

In FY 2015, the largest seven revenue sources accounted for just over 86% of total general fund revenue. This section will highlight current trends with each source and further revenue detail if applicable.

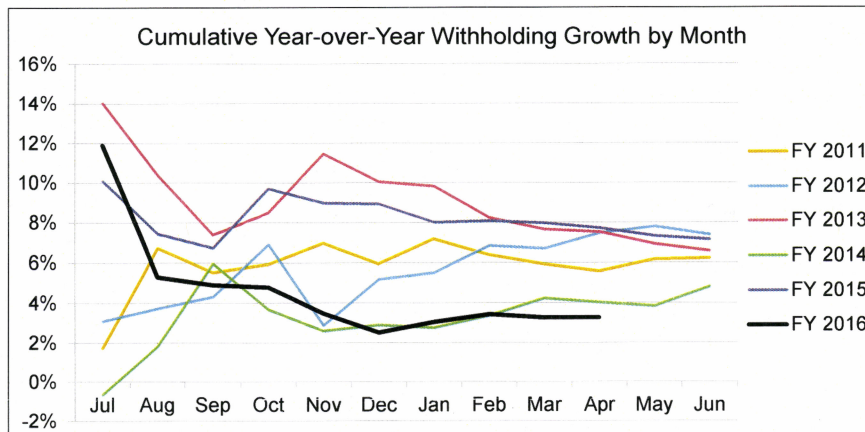


Individual Income Tax: Currently Below HJ 2

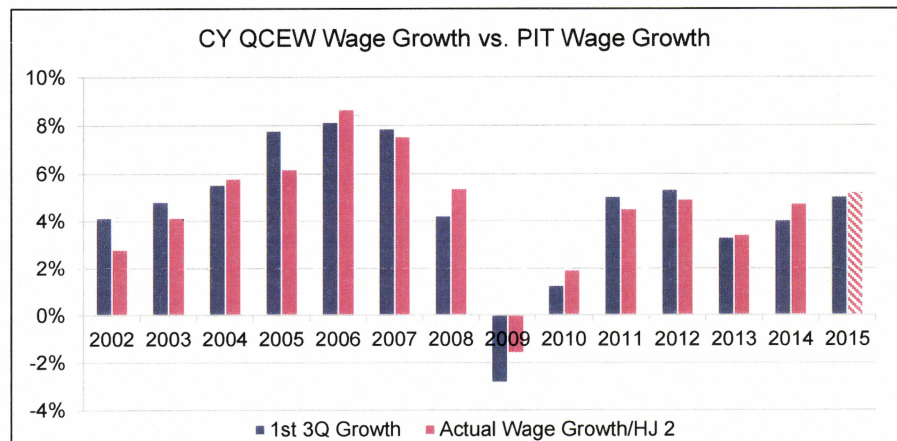
Individual income tax collections are \$15.8 million or 1.5% above last year, which is below the anticipated growth of 4.6% contained in HJ 2. Withholding tax collections held constant at 3.3% over last year and will continue to be monitored closely as the year progresses.

Individual Income Tax (\$ Millions)				
	YTD 2016	YTD 2015	\$ Difference	% Difference
Withholding	\$728.3	\$705.3	\$23.0	3.3%
Estimated Payments	228.3	215.2	13.1	6.1%
Current Year Payments	184.2	194.3	(10.0)	-5.2%
Audit, P&I, Amended	38.7	29.9	8.9	29.6%
Refunds	(246.8)	(228.7)	(18.1)	7.9%
Refund Accrual Reversal	140.0	132.6	7.4	5.6%
Partnership Income Tax	19.3	21.2	(1.9)	-9.0%
Mineral Royalties	6.6	13.2	(6.6)	-49.8%
Total	\$1,098.7	\$1,082.9	\$15.8	1.5%

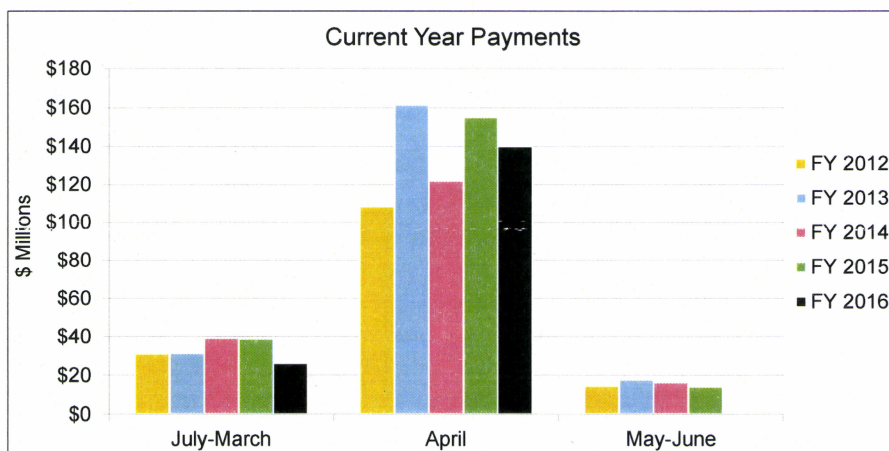
Withholding shows weak growth when compared to FY 2015 collections. As shown in the following chart, withholding growth tends to be relatively volatile in the first half of the year. By February, the year-over-year growth seems to stabilize, along with potential assessments of overall FY 2016 withholding growth.



Although withholding comes primarily from wage income, change in withholding may also reflect taxpayers' changing expectation of other income sources such as retirement income and possibly capital gains. The slower growth that is currently seen in withholding appears to be due to factors other than wage growth; as shown in the chart to the right, wage growth as measured by the Quarterly Census of Employment & Wages (QCEW) in the first three quarters of 2015 was 5%.



Current year payments in April were \$15.2 million below FY 2015 current year payments. Most current year payments are received in April, as shown in the chart below. Collections have varied in recent years primarily due to changes in taxpayer behavior; however, the current decline may be due to weak stock market growth in CY 2015.



Property Tax: In Line with Estimate

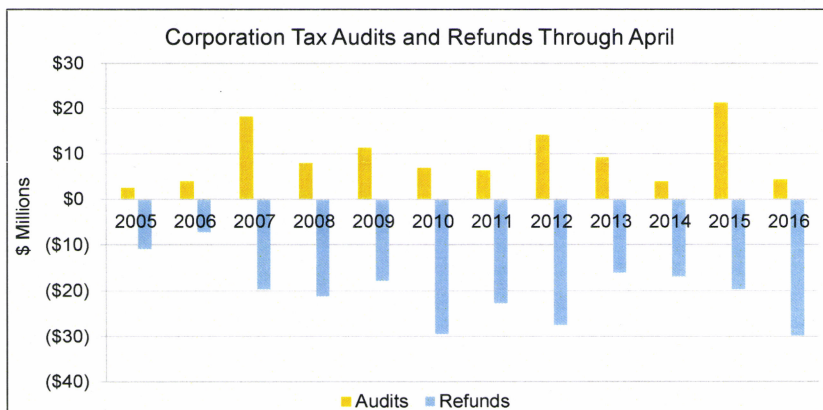
Property tax collections are above last year by \$4.9 million or 3.4%, and currently above the HJ 2 estimated growth of 2.4%. The second large property tax payment will occur in June. Final collections will likely come in close to HJ 2 estimates, and perhaps slightly above due to strong growth in Class 9 pipeline property.

Corporation Income Tax: Below Estimate

Corporation income tax collections through the end of April are \$50.7 million or 35.7% below last year, and below the anticipated increase of 4.2% contained in HJ 2.

Corporation Income Tax (\$ Millions)				
Account	YTD 2016	YTD 2015	\$ Difference	% Difference
Corporation Tax	\$22.7	\$23.7	(\$1.0)	-4.1%
Estimated Payments	87.7	103.4	(15.7)	-15.2%
Refunds	(29.8)	(19.7)	(10.2)	51.7%
Refund Accrual Reversal	4.3	8.1	(3.8)	-47.0%
Audit, P&I, Amended	6.2	26.3	(20.1)	-76.4%
Total	\$91.1	\$141.8	(\$50.7)	-35.7%

The year-over-year decrease is due to a variety of reasons. First, there was a large one-time audit in FY 2015 that contributed to audit collections in FY 2015 to be larger than current year's audit collections. Also, a monthly record level of refunds was distributed in April—just over \$16 million. The chart to the right shows a historical comparison of cumulative audits and refunds through April.



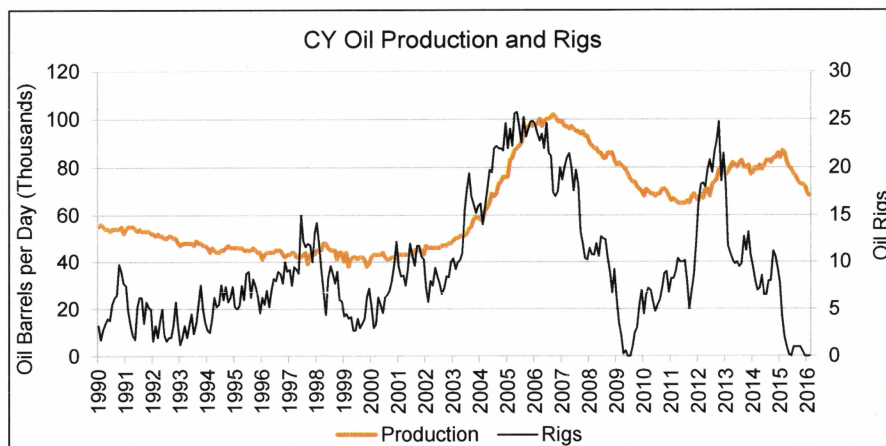
Finally, the FY 2016 April estimated payment was \$11.8 million less than the corresponding FY 2015 payment; with total estimated payments through April \$15.7 million less than last year. On average, estimated payments account for about 80% of total corporation tax revenue.

Vehicle Fees & Taxes: Slightly Above Estimate

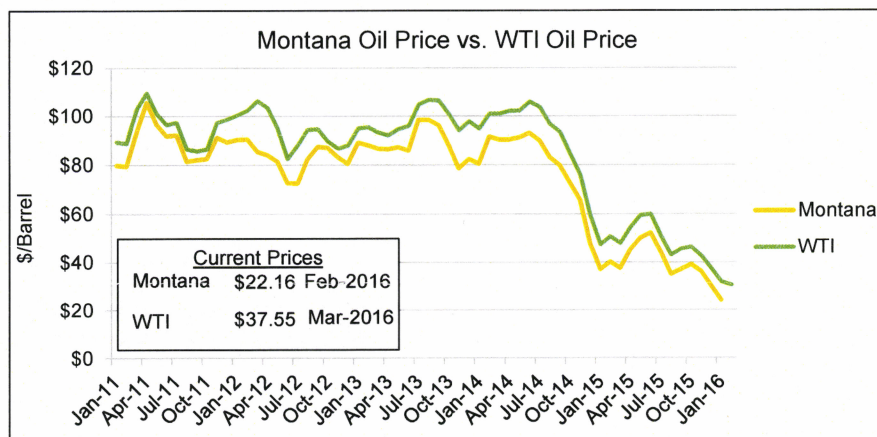
Through April FY 2016, vehicle taxes and fees are 2.2% or \$1.7 million above collections from last year. In HJ 2, this source was expected to decline by 0.2% from the FY 2015 collections. This source is expected to slowly continue to grow throughout the remainder of the fiscal year.

Oil & Natural Gas Production Tax: Below Estimate

With the first and second quarter collections posted, oil and natural gas tax is below last year's collections by 53.4% or \$24.7 million, and below the HJ 2 anticipated decline of 19.0%. The dollar difference will continue to increase but the percentage difference should move somewhat closer to HJ 2 as the fiscal year closes, because the first quarter contained the biggest discrepancy in oil prices from FY 2015 to FY 2016. Production continues to decline as shown in the chart below, and there has only been at most one rig operating in the state since March of 2015.



The decline in price is the primary driver in the reduced revenue collections. The following chart compares the monthly average price for Montana oil with the WTI price. There is a two-to-three month lag in available monthly price data.



Insurance Tax: Slower-than-Expected Growth

Current insurance tax collections are 4.6% or \$2.3 million above FY 2015 year-to-date. HJ 2 anticipates growth of 8.6% at fiscal year end. Collections have been more volatile than usual this fiscal year; the State Auditor's Office is working to better understand the reasons for the fluctuations and will contact the LFD with further information.

Video Gaming Tax: Slightly Below HJ 2

Revenue from video gambling is currently \$0.6 million or 1.4% above collections from last year at this time. In HJ 2, FY 2016 video gambling revenue was forecast to grow by 3.7%.

OTHER KEY DIFFERENCES:

Lodging Facilities Sales Tax: Above Estimate Due to Online Travel Companies' Remittances

Lodging facilities sales tax collections are \$1.6 million or 13.0% above last year, and above the anticipated growth of 11.0% contained in HJ 2. The growth is driven by \$1.1 million in payments made in November by online travel companies as a result of litigation with DOR. Going forward, the online travel companies are anticipated to remit about \$0.1 million per quarter. The litigation also impacted rental car sales taxes, with an additional \$0.3 million in payments by the online travel companies.

Retail Telecommunications Excise Tax: Below Estimate; Research Ongoing

Retail telecommunications excise tax is currently \$1.2 million or 11.6% below collections through this time last year. While this source has been declining steadily since the DOR's loss of the prepaid wireless case in 2011, the percentage decline so far this year is larger than previous years. Preliminary analysis suggests that the difference is not a result of a timing issue. DOR has been contacted for further information; research is ongoing.

Coal Severance Tax: Below Estimate Due to Lower Production

Coal severance tax revenue is \$3.7 million or 30.1% below year-to-date collections in FY 2015, and below the HJ 2 estimated decline of 10.1%. General fund collections were expected to decrease primarily due to [HB 228](#) which shifted coal distribution from the general fund to the coal board account; however, total coal collections were expected to stay flat. It appears that there is a timing issue with payments contributing to the majority of the year-to-date decline, and lower production is contributing to the remainder of the decreased revenues.

Metal Mines Tax: Below Estimate Primarily Due to Lower Commodity Prices

Metal mines tax revenue through April is \$1.8 million or 47.8% below last year, and below the anticipated decline of 0.1% in HJ 2. The reduced revenue is primarily driven by lower metal prices; for several metals, production has increased from last year, while for the remaining metals, the decline in production is not as significant as the drop in price.

U.S. Mineral Royalties: Below Estimate, Likely Due to Oil

U.S. mineral royalties are down year-to-date 29.3% or \$5.7 million, and below the HJ 2 forecast decrease of 10.7%. While total U.S. mineral royalties were expected to decrease, the larger-than-expected decrease is most likely due to oil royalties being lower than expected. The U.S. Department of the Interior's Office of Natural Resources Revenue releases the royalty payment category breakdowns at the end of the federal fiscal year, so detailed information by revenue type will not be available until November 2016.

Coal Trust Interest Earnings: Slightly Below Estimate

To date, coal trust interest earnings are \$1.0 million or 7.1% below collections from one year ago. The year-to-date decline is due to a lower rate-of-return on the coal permanent trust than last fiscal year. In HJ 2, collections were expected to decline by 6.4%, so this source is tracking as expected.

TCA Interest Earnings: Below Estimate Due to Lower Interest Rates

To date, TCA interest earnings are trending below the estimate contained in HJ 2 due to continued low interest rates. While interest rates are low, they have increased slightly from last year as year-to-date collections are up 80.6% or \$1.2 million. However, in HJ 2 collections were expected to grow by \$6.4 million.

Lottery Profits: Currently Below Estimate Due to Large Payouts

Lottery profits are 16.8% or \$1.1 million behind last fiscal year. As of the end of March, lottery prize payouts were up \$3.8 million over FY 2015, a year-to-date record of \$26.6 million. The majority of this increase occurred in January, but lottery transfers to the general fund are made quarterly so it was not reflected in general fund revenue until now. It is likely that the source will be close to the HJ 2 estimate by fiscal year end.

All Other Revenue: Below Estimate Due to SB 405 Premiums

To date, all other revenue collections are 7.8% or \$1.9 million below last year's collections, primarily due to a decrease in abandoned property collections. In HJ 2, collections were expected to decrease by 1.9%. In addition, the official estimate included nearly \$3.0 million in premium collections from [SB 405](#), which have not been collected yet.

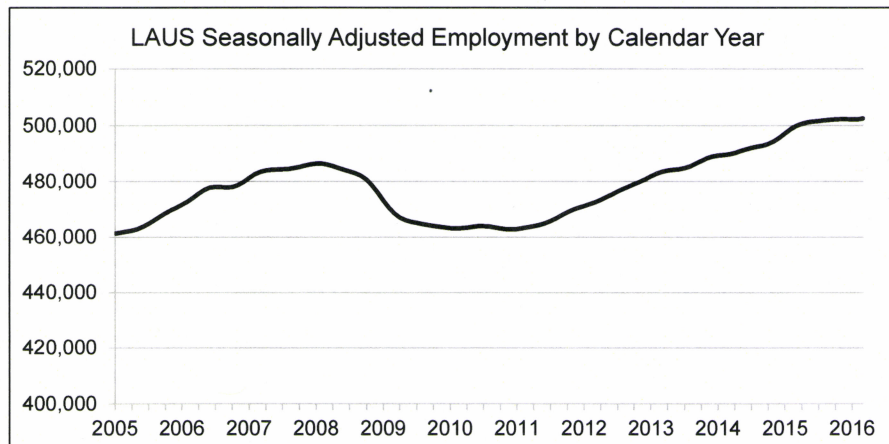
Public Institution Reimbursements: Below Estimate

Public institution reimbursements are currently 44.0% or \$4.5 million behind last fiscal year, some of which appears to be due to timing. Collections for this source are historically erratic, so this will likely even out by the end of the fiscal year. However, this source will also be impacted by [SB 411](#), with the magnitude of the effect dependent upon the speed at which the closure of the Montana Developmental Center (MDC) moves forward. In addition, part of SB 411 specified that some of the revenues from this source be withheld from the general fund to pay off bonding associated with MDC. The estimates adopted for this source assumed that payment would occur in FY 2017, but the Department of Health & Human Services chose to pay the bond in FY 2016. The impact of moving this payment to FY 2016 will net to zero for the biennium.

LEADING ECONOMIC INDICATORS

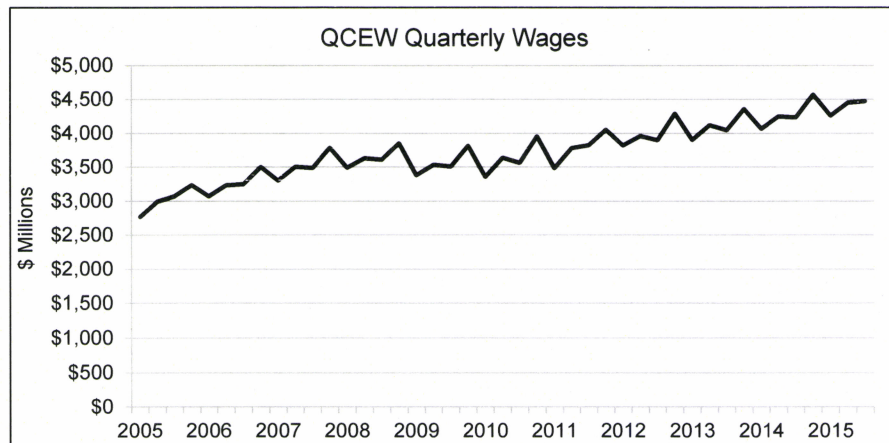
Employment

The [Local Area Unemployment Statistics](#) (LAUS) program from the federal Bureau of Labor Statistics (BLS) provides a monthly estimate of an area's labor force, employment, unemployment, and unemployment rate. Data is taken from surveys and unemployment claims recorded during the monthly reference week, which is usually the week including the 12th day of each month. Statistics are an estimate of persons by place of residence, not jobs or where a person works. In order to be considered unemployed an individual must have had no employment during the reference week, been available for work, and have made an effort to find employment for four weeks leading up to the reference week. The chart below shows seasonally adjusted LAUS employment since CY 2005.



Wages

Industry employment and wage data is collected through the [Quarterly Census of Employment and Wages](#) (QCEW) program from the BLS. The primary sources for the QCEW are the reports submitted by employers to the Montana Unemployment Insurance program. Employment data represents the number of workers on the payroll during the pay period including the 12th day of the month. Total wages include gross wages and salaries, bonuses, profit sharing, commissions, severance pay, and limited tips. Total wages are reported in quarter paid and not earned. The chart below shows QCEW total wages by quarter since CY 2005.



Building Permits

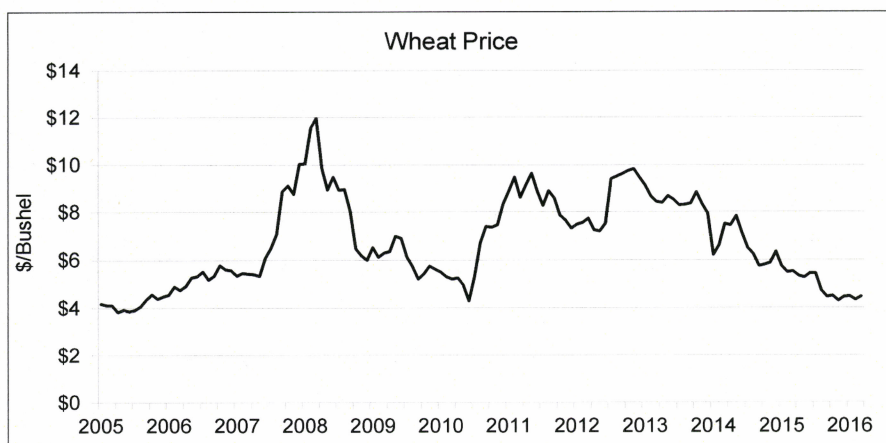
The [Building Permits Survey](#) by the U.S. Census Bureau provides data on the number of new housing units authorized by building permits. Building permits data are collected from individual permit offices, most of which are municipalities; the remainder are counties, townships, or towns. From local area data, estimates are tabulated for counties, states, metropolitan areas and other regions. The reliability of this data may be limited for Montana, as some counties do not require building permits. Unfortunately, data for other sources such as water and sewer hookups that may more accurately reflect new construction is not available as a database, and too much time would be required to compile the data into a useful format.

The Census Bureau building permits data is available online, but is not compiled into a useful database. Fortunately, the historical data has been assembled by IHS, and is shown in the chart below.

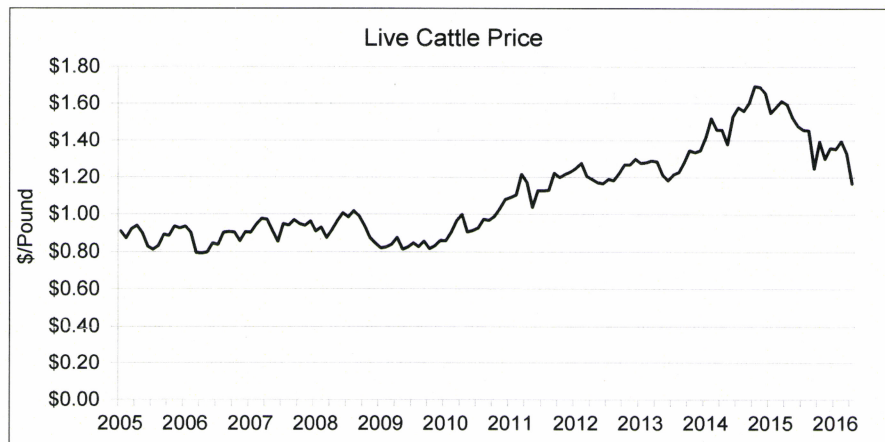


Agricultural Prices

Historical wheat prices are based on hard red winter wheat from the USDA Market News as compiled by [index mundi](#).



Historical live cattle prices are compiled from investing.com.



Drilling Permits

Drilling permits data obtained from the [Montana Board of Oil & Gas](http://montana.gov/oil-gas) are shown in the chart below. Due to a pre-regulatory period prior to the 1950s, the chart includes primarily drilled wells for those years as permits were not required. It is important to note that not all permits result in completed wells. As shown below, 2015 had the lowest number of permits since 1919.

